

City of Sully

**Independent Auditor's Reports
Basic Financial Statements
and Supplementary Information
Schedule of Findings and Questioned Costs**

June 30, 2004

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City of Sully

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------------------|-------------------|---------------------|
| (Before January 2004) | | |
| Gordon Yarrington | Mayor | January 2006 |
| Robert Nikkel | Mayor Pro Tem | January 2006 |
| Clinton Vonk | Council Member | January 2006 |
| Arie Scholten | Council Member | January 2008 |
| Wesley Van Wyk | Council Member | January 2006 |
| William Zylstra | Council Member | January 2008 |
| (After January 2004) | | |
| Gordon Yarrington | Mayor | January 2004 |
| Robert Nikkel | Mayor Pro tem | January 2006 |
| Wesley Van Wyk | Council Member | January 2006 |
| Clinton Vonk | Council Member | January 2004 |
| Arie Scholten | Council Member | January 2004 |
| William Zylstra | Council Member | January 2004 |
| Barbra Maasdam | Clerk / Treasurer | January 2006 |
| Timothy Tripp | Attorney | Indefinite |

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sully, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Sully's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sully as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 9, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our reports dated September 28, 2004 on our consideration of the City of Sully's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 7 and 19 through 20 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Sully's basic financial statements. Other supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ROLAND & DIELEMAN

Certified Public Accountants

September 28, 2004

Management's Discussion and Analysis

City of Sully provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 136%, or approximately \$958,000, from fiscal 2003 to fiscal 2004. Property tax decreased approximately \$93,000 and bond proceeds increased \$825,000.
- Disbursements increased 52%, or approximately \$533,000, in fiscal 2004 from fiscal 2003. Public safety disbursements decreased approximately \$8,500. Debt service disbursements increased approximately \$454,000 and capital projects by \$128,000.
- The City's total cash basis net assets increased 127%, or approximately \$468,000 from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$351,000 and the assets of the business type activities increased by approximately \$117,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system, and the garbage. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and garbage funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for proprietary funds include a statement of cash receipts,

disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from \$149 thousand to \$500 thousand.

The City's total receipts for governmental activities increased by 136%, or \$958,000. The total cost of all programs and services increased by approximately \$533,000, or 52%. The significant increase in receipts was primarily the result of note proceeds.

The cost of all governmental activities this year was \$1.3 million compared to \$781 thousand last year. Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2004 from approximately \$703,000 to approximately \$1,662,000 principally due to note proceeds.

| Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands) | | |
|--|---------------------|------------|
| | Year ended June 30. | |
| | 2004 | 2003 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service: | | |
| Garbage | \$ 26 | \$ 21 |
| Water | 172 | 167 |
| Sewer | 95 | 97 |
| General receipts: | | |
| Unrestricted interest on investments | 3 | 0 |
| Transfer | 17 | 0 |
| Total receipts | <u>313</u> | <u>285</u> |
| Disbursements and transfers: | | |
| Garbage | 25 | 27 |
| Water | 149 | 105 |
| Sewer | 77 | 61 |
| Transfers | 13 | 0 |
| Total disbursements and transfers | <u>264</u> | <u>193</u> |
| Increase (decrease) in cash balance | 49 | 92 |
| Cash basis net assets beginning of year | <u>296</u> | <u>204</u> |
| Cash basis net assets end of year | <u>\$ 345</u> | <u>296</u> |

Total business type activities receipts for the fiscal year were \$313 thousand compared to \$285 thousand last year. The cash balance increased by approximately \$49,000 from the prior year. Total disbursements and transfers for the fiscal year increased by 37% to a total of \$264 thousand.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Sully completed the year, its governmental funds reported a combined fund balance of \$492,207, an increase of more than \$343,000 above last year's total of \$148,989. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$158,594 from the prior year to \$388,633.
- The Road Use Tax Fund cash balance increased by \$29,257 to \$77,736 during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$21,520 to \$137,364.
- The Sewer Fund cash balance increased by \$9,057 to \$113,600.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$2,048,000 in bonds and other long-term debt, compared to approximately \$1,460,000 last year, as shown below.

| Outstanding Debt at Year-End (Expressed in Thousands) | | |
|--|-----------------|--------------|
| | June 30, | |
| | 2004 | 2003 |
| General obligation bonds | \$ 360 | \$ 435 |
| Urban renewal tax increment financing revenue bonds | 810 | 100 |
| Revenue notes | <u>878</u> | <u>925</u> |
| Total | \$ <u>2,048</u> | <u>1,460</u> |

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$ 360,000 is significantly below its constitutional debt limit.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Barbra Maasdam, City Clerk, Sully, Iowa.

City of Sully
Statement of Activities and Net Assets - Cash Basis
As of and for the year ended June 30, 2004

Exhibit A

| | | Program Receipts | | Net (Disbursements) Receipts and Changes in Cash Basis Net Assets | |
|---|---------------------|------------------------|--|--|-----------------------------|
| | | Charges for Service | Operating Grants, Contributions and Restricted Interest | Governmental Activities | Business Type Activities |
| | Disbursements | | | | Total |
| Functions / Programs: | | | | | |
| Governmental activities: | | | | | |
| Public safety | \$ 15,554 | | | (15,554) | (15,554) |
| Public works | 56,419 | | 76,795 | 20,376 | 20,376 |
| Culture and recreation | 55,990 | | | (55,990) | (55,990) |
| Community and economic development | 1,130 | | | (1,130) | (1,130) |
| General government | 96,838 | | 10,724 | (86,114) | (86,114) |
| Debt service | 524,417 | | | (524,417) | (524,417) |
| Capital projects | 564,876 | | | (564,876) | (564,876) |
| Total governmental activities | <u>1,315,224</u> | <u> </u> | <u>87,519</u> | <u>(1,227,705)</u> | <u>(1,227,705)</u> |
| Business type activities: | | | | | |
| Water | 149,135 | 172,405 | | | 23,270 |
| Sewer | 76,888 | 95,155 | | | 18,267 |
| Garbage | 25,140 | 25,943 | | | 803 |
| Total business type activities | <u>251,163</u> | <u>293,503</u> | <u> </u> | <u> </u> | <u>42,340</u> |
| Total | <u>\$ 1,566,387</u> | <u>293,503</u> | <u>87,519</u> | <u>(1,227,705)</u> | <u>(1,185,365)</u> |
| General Receipts: | | | | | |
| Property tax levied for: | | | | | |
| General purposes | | | | 96,292 | 96,292 |
| Tax increment financing | | | | 220,796 | 220,796 |
| Debt service | | | | 48,978 | 48,978 |
| Unrestricted interest on investments | | | | 13,689 | 2,614 |
| Note proceeds | | | | 1,125,000 | 1,125,000 |
| Miscellaneous | | | | 19,462 | 19,462 |
| Sale of assets | | | | 50,656 | 50,656 |
| Transfers | | | | 3,950 | (3,950) |
| Total general receipts and transfers | | | | <u>1,578,823</u> | <u>(1,336)</u> |
| Change in cash basis net assets | | | | 351,118 | 41,004 |
| Cash basis net assets beginning of year | | | | <u>148,989</u> | <u>295,997</u> |
| Cash basis net assets of year | | | | <u>\$ 500,107</u> | <u>337,001</u> |
| Cash Basis Net Assets: | | | | | |
| Restricted: | | | | | |
| Debt service | | | | 953 | 107,064 |
| Unrestricted | | | | <u>499,154</u> | <u>729,091</u> |
| Total cash basis net assets | | | | <u>\$ 500,107</u> | <u>837,108</u> |

See notes to financial statements.

City of Sully
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2004

Exhibit B

| | Special Revenue | | | | | |
|---------------------------------------|-------------------|--------------------|-----------------------------------|---------------------|------------------|-------------------|
| | General | Road Use Tax | Urban Renewal Tax Increment | Capital Projects | Debt Service | Total |
| Receipts: | | | | | | |
| Property tax | \$ 96,292 | | | | 28,314 | 124,606 |
| Tax increment financing collections | | | 220,796 | | 20,664 | 241,460 |
| Other city tax | 4,469 | | | | 645 | 5,114 |
| Licenses and permits | 690 | | | | | 690 |
| Use of money and property | 13,689 | | | | | 13,689 |
| Intergovernmental | 10,724 | 76,795 | | | | 87,519 |
| Miscellaneous | 8,080 | | | 5,578 | | 13,658 |
| Total receipts | <u>133,944</u> | <u>76,795</u> | <u>220,796</u> | <u>5,578</u> | <u>49,623</u> | <u>486,736</u> |
| Disbursements: | | | | | | |
| Operating: | | | | | | |
| Public safety | 15,554 | | | | | 15,554 |
| Public works | 15,131 | 41,288 | | | | 56,419 |
| Culture and recreation | 55,990 | | | | | 55,990 |
| Community and economic development | | | 1,130 | | | 1,130 |
| General government | 93,204 | | 3,634 | | | 96,838 |
| Debt service | | | | | 524,417 | 524,417 |
| Capital projects | | | | 564,876 | | 564,876 |
| Total disbursements | <u>179,879</u> | <u>41,288</u> | <u>4,764</u> | <u>564,876</u> | <u>524,417</u> | <u>1,315,224</u> |
| Excess of receipts over disbursements | (45,935) | <u>35,507</u> | <u>216,032</u> | <u>(559,298)</u> | <u>(474,794)</u> | <u>(828,488)</u> |
| Other financing sources (uses): | | | | | | |
| Note proceeds | | | | 675,000 | 450,000 | 1,125,000 |
| Sale of capital assets | 2,229 | | | 36,756 | 11,671 | 50,656 |
| Operating transfers in | 204,000 | | | | 13,840 | 217,840 |
| Operating transfers out | (1,700) | (6,250) | (213,840) | | | (221,790) |
| Total other financing sources (uses) | <u>204,529</u> | <u>(6,250)</u> | <u>(213,840)</u> | <u>711,756</u> | <u>475,511</u> | <u>1,171,706</u> |
| Net change in cash balances | 158,594 | 29,257 | 2,192 | 152,458 | 717 | 343,218 |
| Cash balances beginning of year | <u>230,039</u> | <u>48,479</u> | <u>2,641</u> | <u>(132,406)</u> | <u>236</u> | <u>148,989</u> |
| Cash balances end of year | <u>\$ 388,633</u> | <u>77,736</u> | <u>4,833</u> | <u>20,052</u> | <u>953</u> | <u>492,207</u> |
| Cash Basis Fund Balances | | | | | | |
| Reserved: | | | | | | |
| Debt service | \$ | | | | 953 | 953 |
| Unreserved: | | | | | | |
| General fund | 388,633 | | | | | 388,633 |
| Special revenue funds | | 77,736 | 4,833 | | | 82,569 |
| Capital projects fund | | | | 20,052 | | 20,052 |
| Total cash basis fund balances | <u>\$ 388,633</u> | <u>77,736</u> | <u>4,833</u> | <u>20,052</u> | <u>953</u> | <u>492,207</u> |

City of Sully

Exhibit C

See notes to financial statements.

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds
As of and for the year ended June 30, 2004

| | |
|---|-------------------|
| Total governmental funds cash balances | \$ 492,207 |
|---|-------------------|

***Amounts reported for governmental activities in the Statement of
Activities and Net Assets are different because:***

The Internal Service Fund is used by management to charge the costs of equipment to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

7,900

| | |
|---|--------------------------|
| Cash basis net assets of governmental activities | \$ <u>500,107</u> |
|---|--------------------------|

| | |
|------------------------------------|-------------------|
| Net change in cash balances | \$ 343,218 |
|------------------------------------|-------------------|

***Amounts reported for governmental activities in the Statement of
Activities and Net Assets are different because:***

The Internal Service Fund is used by management to charge the costs of equipment to individual funds. The change on net assets of the Internal Service Fund is reported with governmental activities.

7,900

| | |
|--|--------------------------|
| Change in cash balance of governmental activities | \$ <u>351,118</u> |
|--|--------------------------|

See notes to financial statements.

City of Sully
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2004

Exhibit D

| | Enterprise Funds | | | | Internal Service Fund Equipment Replacement |
|---|----------------------|-----------------------|-----------------------|-----------------------|--|
| | Garbage | Water | Sewer | Total | |
| Operating receipts: | | | | | |
| Charges for service | \$ <u>25,943</u> | <u>172,405</u> | <u>95,155</u> | <u>293,503</u> | |
| Total operating receipts | <u>25,943</u> | <u>172,405</u> | <u>95,155</u> | <u>293,503</u> | |
| Operating disbursements: | | | | | |
| Business type activities | <u>25,140</u> | <u>110,381</u> | <u>38,568</u> | <u>174,089</u> | |
| Total operating disbursements | <u>25,140</u> | <u>110,381</u> | <u>38,568</u> | <u>174,089</u> | |
| Excess (deficiency) of operating receipts over (under) operating disbursements | <u>803</u> | <u>62,024</u> | <u>56,587</u> | <u>119,414</u> | |
| Non-operating receipts (disbursements): | | | | | |
| Interest on investments | | 1,000 | 1,550 | 2,550 | 64 |
| Debt service | | (<u>38,754</u>) | (<u>38,320</u>) | (<u>77,074</u>) | |
| Total non-operating receipts (disbursements) | | (<u>37,754</u>) | (<u>36,770</u>) | (<u>74,524</u>) | <u>64</u> |
| Excess (deficiency) of receipts over (under) disbursements | 803 | 24,270 | 19,817 | 44,890 | 64 |
| Operating transfers in | | | | | 17,460 |
| Operating transfers out | | (<u>2,750</u>) | (<u>10,760</u>) | (<u>13,510</u>) | |
| Net changes in cash balances | 803 | 21,520 | 9,057 | 31,380 | 17,524 |
| Cash balances beginning of year | | <u>115,844</u> | <u>104,543</u> | <u>220,387</u> | <u>75,610</u> |
| Cash balances end of year | \$ <u><u>803</u></u> | <u><u>137,364</u></u> | <u><u>113,600</u></u> | <u><u>251,767</u></u> | <u><u>93,134</u></u> |
| Cash Basis Fund Balances | | | | | |
| Reserved for debt service | \$ | 53,475 | 53,589 | 107,064 | |
| Unreserved | <u>803</u> | <u>83,889</u> | <u>60,011</u> | <u>144,703</u> | <u>93,134</u> |
| Total cash basis fund balances | \$ <u><u>803</u></u> | <u><u>137,364</u></u> | <u><u>113,600</u></u> | <u><u>251,767</u></u> | <u><u>93,134</u></u> |

See notes to financial statements.

City of Sully
Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Proprietary Funds
As of and for the year ended June 30, 2004

Exhibit E

| | |
|---|-------------------|
| Total enterprise funds cash balances | \$ 251,767 |
|---|-------------------|

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of equipment to individual funds. The assets of the Internal Service Fund are included in business type activities in the Statement of Net Assets.

85,234

| | |
|--|--------------------------|
| Cash basis net assets of business type activities | \$ <u>337,001</u> |
|--|--------------------------|

| | |
|------------------------------------|------------------|
| Net change in cash balances | \$ 31,380 |
|------------------------------------|------------------|

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of equipment to individual funds. The change on net assets of the Internal Service Fund is reported with business type activities.

9,624

| | |
|---|--------------------------------|
| Change in cash balance of business type activities | \$ <u><u>41,004</u></u> |
|---|--------------------------------|

See notes to financial statements.

City of Sully
Notes to Financial Statements
June 30, 2004

(1) Summary of Significant Accounting Policies

The City of Sully is a political subdivision of the State of Iowa located in Jasper County. It was first incorporated in 1901 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides trash, water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Sully has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities with the exception of those that are financed through the proprietary funds.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Garbage Fund accounts for the operation and maintenance of the garbage pickup in the City.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

The City of Sully maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing and revenue bonds are as follows:

| Year Ending | General Obligation Bonds | | Urban Renewal Tax Increment Financing (TIF) Revenue Notes | | Revenue Bonds | | Total | |
|-------------|--------------------------|----------------|---|---------------|----------------|----------------|------------------|----------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| June 30, | | | | | | | | |
| 2005 | 30,000 | 18,360 | 60,000 | 16,240 | 48,000 | 31,901 | 138,000 | 66,501 |
| 2006 | 30,000 | 16,830 | 410,000 | 8,600 | 54,000 | 30,154 | 494,000 | 55,584 |
| 2007 | 30,000 | 15,300 | 60,000 | 960 | 55,000 | 28,185 | 145,000 | 44,445 |
| 2008 | 30,000 | 13,770 | 55,000 | 320 | 61,000 | 26,180 | 146,000 | 40,270 |
| 2009 | 30,000 | 12,240 | 50,000 | | 62,000 | 23,953 | 142,000 | 36,193 |
| 2010-2014 | 150,000 | 38,250 | 175,000 | | 341,000 | 84,359 | 666,000 | 122,609 |
| 2015-2019 | <u>60,000</u> | <u>4,590</u> | <u> </u> | <u> </u> | <u>257,000</u> | <u>23,524</u> | <u>317,000</u> | <u>28,114</u> |
| Total | <u>\$ 360,000</u> | <u>119,340</u> | <u>810,000</u> | <u>26,120</u> | <u>878,000</u> | <u>248,256</u> | <u>2,048,000</u> | <u>393,716</u> |

The Code of Iowa required principal and interest on general obligation bonds be paid from the Debt Service Fund.

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying the costs of a \$350,000 grant to the Sully Development Corporation with the acquisition and development of real estate. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for the purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (1) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (2) Sufficient monthly transfers shall be made to separate water and sewer revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (3) Transfers to a water reserve account and to a sewer revenue reserve account within the Enterprise Funds have been made in excess of specific minimum balances. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2004 was \$5,464, equal to the required contributions for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

| Type of Benefit | Amount |
|-----------------|----------|
| Vacation | \$ 3,705 |

This liability has been computed based on rates of pay in effect at 6/30/04.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

| <u>Transfer to</u> | Amount | <u>Transfer from</u> | Amount |
|--------------------|-------------------|----------------------------|-------------------|
| General | \$ 204,000 | Enterprise: Sewer | \$ 10,760 |
| Debt Service | 13,840 | Enterprise: Water | 2,750 |
| Equipment | 17,460 | Special Revenue - TIF | 213,840 |
| | | Special Revenue - Road Use | 6,250 |
| | _____ | General | <u>1,700</u> |
| Total | <u>\$ 235,300</u> | | <u>\$ 235,300</u> |

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

There was a transfer of \$200,000 from the TIF fund to the general fund in order to repay an interfund loan. The loan was made September 2002 to acquire certain property for economic development.

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$11,333 during the year ended June 30, 2004.

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitation. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ending June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

City of Sully
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2004

| | Governmental Funds Actual | Proprietary Funds Actual | Budgeted Amounts | | | Final to Net Variance |
|---|---------------------------------|--------------------------------|------------------|----------------|------------------|-----------------------------|
| | | | Net | Original | Final | |
| Receipts: | | | | | | |
| Property tax | \$ 124,606 | | 124,606 | 144,148 | 144,148 | (19,542) |
| Tax increment financing collections | 241,460 | | 241,460 | 213,840 | 213,840 | 27,620 |
| Other city tax | 5,114 | | 5,114 | 7,402 | 7,402 | (2,288) |
| Licenses and permits | 690 | | 690 | 450 | 575 | 115 |
| Use of money and property | 13,689 | 2,614 | 16,303 | 8,400 | 10,250 | 6,053 |
| Intergovernmental | 87,519 | | 87,519 | 109,207 | 84,270 | 3,249 |
| Charges for service | | 293,503 | 293,503 | 287,795 | 291,925 | 1,578 |
| Miscellaneous | <u>13,658</u> | | <u>13,658</u> | <u>5,150</u> | <u>14,908</u> | (1,250) |
| Total receipts | <u>486,736</u> | <u>296,117</u> | <u>782,853</u> | <u>776,392</u> | <u>767,318</u> | <u>15,535</u> |
| Disbursements: | | | | | | |
| Public safety | 15,554 | | 15,554 | 26,623 | 18,720 | 3,166 |
| Public works | 56,419 | | 56,419 | 104,732 | 75,957 | 19,538 |
| Culture and recreation | 55,990 | | 55,990 | 67,382 | 56,490 | 500 |
| Community and economic development | 1,130 | | 1,130 | 1,722 | 1,991 | 861 |
| General government | 96,838 | | 96,838 | 105,854 | 103,929 | 7,091 |
| Debt service | 524,417 | | 524,417 | 63,730 | 525,401 | 984 |
| Capital projects | 564,876 | | 564,876 | | 590,200 | 25,324 |
| Business type activities | | <u>251,163</u> | <u>251,163</u> | <u>254,637</u> | <u>293,114</u> | <u>41,951</u> |
| Total disbursements | <u>1,315,224</u> | <u>251,163</u> | <u>1,566,387</u> | <u>624,680</u> | <u>1,665,802</u> | <u>99,415</u> |
| Excess of receipts over disbursements | (828,488) | 44,954 | (783,534) | 151,712 | (898,484) | 114,950 |
| Other financing sources, net | <u>1,171,706</u> | <u>3,950</u> | <u>1,175,656</u> | | <u>1,184,671</u> | (9,015) |
| Excess of receipts and other financing sources over disbursements and other financing uses | 343,218 | 48,904 | 392,122 | 151,712 | 286,187 | 105,935 |
| Balances beginning of year | <u>148,989</u> | <u>295,997</u> | <u>444,986</u> | <u>418,780</u> | <u>369,377</u> | <u>75,609</u> |
| Balances end of year | \$ <u>492,207</u> | <u>344,901</u> | <u>837,108</u> | <u>570,492</u> | <u>655,564</u> | <u>181,544</u> |

See accompanying independent auditor's report.

City of Sully
Notes to Required Supplementary Information - Budgetary Reporting
June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$198,602. The budget amendments are reflected in the final budgeted amounts.

City of Sully
Schedule of Indebtedness
Year ended June 30, 2004

Schedule 1

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued | Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid | Interest Due and Unpaid |
|---|----------------|----------------|--------------------------|---------------------------|--------------------|----------------------|---------------------|---------------|-------------------------|
| General obligation bonds: | | | | | | | | | |
| Street improvement | Aug. 15, 2001 | 5.1% | \$ <u>425,000</u> | <u>390,000</u> | <u> </u> | <u>30,000</u> | <u>360,000</u> | <u>19,890</u> | <u>1,530</u> |
| Revenue bonds: | | | | | | | | | |
| Water | Sept. 13, 1999 | 3.53% | \$ 550,000 | 468,000 | | 22,000 | 446,000 | 16,520 | 1,312 |
| Sewer | June 27, 1995 | 3.74% | \$ <u>607,000</u> | <u>457,000</u> | <u> </u> | <u>25,000</u> | <u>432,000</u> | <u>17,092</u> | <u>1,346</u> |
| Total | | | \$ <u>1,157,000</u> | <u>925,000</u> | <u> </u> | <u>47,000</u> | <u>878,000</u> | <u>33,612</u> | <u>2,658</u> |
| Urban renewal tax increment financing (TIF) revenue bonds | | | | | | | | | |
| Industrial | Jan. 23, 2004 | 0% | \$ 450,000 | 0 | 450,000 | 25,000 | 425,000 | 0 | 0 |
| Industrial | Feb. 26, 2004 | 4.0% | 350,000 | 0 | 350,000 | 0 | 350,000 | 0 | 1,167 |
| Short-term | Sept. 9, 2002 | 4.0% | 100,000 | 100,000 | 325,000 | 425,000 | 0 | 11,671 | 186 |
| Community Center Notes | Sept. 1, 1994 | 6.4% | <u>100,000</u> | <u>44,985</u> | <u> </u> | <u>9,985</u> | <u>35,000</u> | <u>2,872</u> | <u>186</u> |
| Total | | | \$ <u>1,000,000</u> | <u>144,985</u> | <u>1,125,000</u> | <u>459,985</u> | <u>810,000</u> | <u>14,543</u> | <u>1,539</u> |

See accompanying independent auditor's report.

City of Sully
Bond and Note Maturities
June 30, 2004

Schedule 2

| Year Ending June 30, | <u>General Obligation Bonds</u> | | <u>General Obligation Notes</u> | | <u>Urban Renewal Tax</u> | | | | |
|----------------------------|---------------------------------|------------|---------------------------------|-----------|-----------------------------|------------|-----------------------------|------------|---------|
| | <u>Street Improvement</u> | | <u>Community Center</u> | | <u>Anticipatory Note</u> | | <u>Revenue Note</u> | | Total |
| | <u>Issued Aug. 15, 2001</u> | | <u>Issued Sept. 1, 1994</u> | | <u>Issued Feb. 26, 2004</u> | | <u>Issued Jan. 23, 2004</u> | | |
| | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount | |
| 2005 | 5.1% | \$ 30,000 | 6.4% | \$ 10,000 | 4.0% | \$ 0 | 0% | \$ 50,000 | 60,000 |
| 2006 | 5.1% | 30,000 | 6.4% | 10,000 | 4.0% | 350,000 | 0% | 50,000 | 410,000 |
| 2007 | 5.1% | 30,000 | 6.4% | 10,000 | | | 0% | 50,000 | 60,000 |
| 2008 | 5.1% | 30,000 | 6.4% | 5,000 | | | 0% | 50,000 | 55,000 |
| 2009 | 5.1% | 30,000 | | | | | 0% | 50,000 | 50,000 |
| 2010 | 5.1% | 30,000 | | | | | 0% | 50,000 | 50,000 |
| 2011 | 5.1% | 30,000 | | | | | 0% | 50,000 | 50,000 |
| 2012 | 5.1% | 30,000 | | | | | 0% | 50,000 | 50,000 |
| 2013 | 5.1% | 30,000 | | | | | 0% | 25,000 | 25,000 |
| 2014 | 5.1% | 30,000 | | | | | | | |
| 2015 | 5.1% | 30,000 | | | | | | | |
| 2016 | 5.1% | 30,000 | | | | | | | |
| Total | | \$ 360,000 | | \$ 35,000 | | \$ 350,000 | | \$ 425,000 | 810,000 |

| Year Ending June 30, | Revenue Bond | | | | |
|----------------------------|-----------------------|-------------------|----------------------|-------------------|-------------------|
| | Water | | Sewer | | Total |
| | Issued Sept. 13, 1999 | | Issued June 27, 1995 | | |
| | Interest Rates | Amount | Interest Rates | Amount | |
| 2005 | 3.53% | \$ 23,000 | 3.74% | \$ 25,000 | \$ 48,000 |
| 2006 | 3.53% | 24,000 | 3.74% | 30,000 | 54,000 |
| 2007 | 3.53% | 25,000 | 3.74% | 30,000 | 55,000 |
| 2008 | 3.53% | 26,000 | 3.74% | 35,000 | 61,000 |
| 2009 | 3.53% | 27,000 | 3.74% | 35,000 | 62,000 |
| 2010 | 3.53% | 27,000 | 3.74% | 35,000 | 62,000 |
| 2011 | 3.53% | 28,000 | 3.74% | 40,000 | 68,000 |
| 2012 | 3.53% | 29,000 | 3.74% | 40,000 | 69,000 |
| 2013 | 3.53% | 30,000 | 3.74% | 40,000 | 70,000 |
| 2014 | 3.53% | 32,000 | 3.74% | 40,000 | 72,000 |
| 2015 | 3.53% | 33,000 | 3.74% | 40,000 | 73,000 |
| 2016 | 3.53% | 34,000 | 3.74% | 42,000 | 76,000 |
| 2017 | 3.53% | 35,000 | 3.74% | | 35,000 |
| 2018 | 3.53% | 36,000 | 3.74% | | 36,000 |
| 2019 | 3.53% | <u>37,000</u> | 3.74% | | <u>37,000</u> |
| Total | | <u>\$ 446,000</u> | | <u>\$ 432,000</u> | <u>\$ 878,000</u> |

See accompanying independent auditor's report.

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Sully as of and for the year ended June 30, 2004, and have issued our report thereon dated September 28, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City of Sully's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City of Sully. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Sully's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Sully's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of Sully and other parties to whom the City of Sully may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Sully during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ROLAND & DIELEMAN

Certified Public Accountants

September 28, 2004

City of Sully
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

I-A-04 Segregation of Duties - One important aspect of the internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. All aspects of the accounting process are performed by the same person.

Recommendation - We realize that segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

City of Sully
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

- II-A-04 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution was exceeded during the year ended June 30, 2004.

Recommendation - New resolution should be approved to increase depository amount.

Response - We will increase depository amount.

Conclusion - Response accepted.

- II-B-04 Certified Budget - Disbursements during the year ended June 30, 2004, did not exceed the amounts budgeted in the general government and business type activities functions.

- II-C-04 Questionable Disbursements - No questionable disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-D-04 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-E-04 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

| <u>Name, Title and Business Connection</u> | <u>Transaction Description</u> | <u>Amount</u> |
|---|------------------------------------|---------------|
| Wes Van Wyk, Council Member, Co-owner Earthworks, Inc. | Construction | \$ 9,150 (a) |
| Wes Van Wyk, Council Member, Co-owner Earthworks, Inc. | Repairs | \$ 2,049 (b) |
| Rod Rozendaal, Council Member, Owner of Rozendaal Drain Cleaning | Parts and Supplies | \$ 133 (c) |

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions (b) and (c) with the Council Members do not appear to represent conflicts of interest since total transactions with each individual were less than \$2,500 during the fiscal year. Transaction (a) with Wes Van Wyk, co-owner of Earthworks, Inc. and a council member, does not appear to represent a conflict of interest since it was entered into through competitive bidding.

City of Sully
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

- II-F-04 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- II-G-04 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-H-04 Revenue Bonds and Notes - The City has complied with the revenue bond and note resolutions.

City of Sully

Staff

This audit was performed by:

Roger Roland, CPA
Royal R. Roland, CPA
Edwin L. Dieleman, CPA